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Getting Creative
Efficient Sourcing
in Marketing



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INTRODUCTION

The large retail bank's approach to buying marketing-related services and materials was typical. On direct marketing efforts, decentralized business units worked with advertising agencies of their choice—agencies usually chosen on the basis of demonstrated capabilities, their understanding of the nuances of the individual businesses, and the personal relationships they had built over time. The relative cost was hard to compare, as each of the bank's business units negotiated its own agreements with its marketing partners. Pricing was usually project-based, with no standardization from one business unit to another, even when it involved universally used items, such as envelopes, mailing inserts, and postcards, or when units shared the same vendors.

This sadly common scenario speaks volumes about the sourcing side of marketing at large companies. Although creative development is met with great attention to detail—no marketer would let poorly written direct mail copy or artwork go out to half a million customers or approve a point-of-sale placard that was off-message—the sourcing of marketing materials or services rarely gets the same scrutiny.

In a way, this is understandable. A marketer's first currency is image—what people see, hear, or touch that draws them to a product or service. But to focus on marketing's end product at the expense of the sourcing process is to miss a very large opportunity both corporation-wide and for marketers themselves. After all, marketing materials and services can represent upwards of a quarter of many companies' total purchasing costs.

LEAVING MONEY ON THE TABLE

If marketing provides such a tangible opportunity for cost savings, why have so few companies found a way to increase the function's purchasing efficiency? For one thing, when companies give their local marketing departments an undue amount of autonomy to work their magic, including allowing them to select vendors and make buying decisions independently, the result is a wide and uncontrolled proliferation of specification and service levels, along with a fragmented vendor base.

One consequence is a lack of consistency in the bidding process. A provider to one business unit may get the job because it offers the lowest price, but a similar supplier to another business unit may win a contract simply because it has been the go-to vendor for many years and the local marketing manager can't imagine switching suppliers. The results of narrow, relationship-based vendor selection can be extremely damaging, both to the company and to the suppliers that are ostensibly benefiting. For example, a restaurant chain was recently forced to end its relationship with a fulfillment vendor because the growth

of the chain's footprint and associated marketing needs outstripped the vendor's capacity and capabilities. With the overwhelming majority of its revenue gone, the fulfillment house unfortunately went out of business.

Another reason that marketing spending lacks controls and is often wasteful lies in the limited interaction, at least historically, between marketing and purchasing departments. Even at companies that are trying to change that dynamic, purchasing directors often do not have enough direct experience working with creative agencies and media buyers—marketing's primary cost centers—to know how to implement more advantageous contracts.

The results of companies with which we have worked demonstrate that the benefits of addressing this disconnect can be substantial. The cost savings from bringing marketing and procurement together in a dedicated program to raise the efficiency of marketing procurement start at 5 percent and can climb as high as 40 percent across spending categories. That can mean tens of millions of dollars in savings at companies that depend heavily on

marketing, such as those in the consumer packaged goods, pharmaceutical, and auto industries. And although some marketers have harbored concerns that any efficiency gains would be achieved at the expense of marketing creativity, those fears, by and large, have not been justified.

On the contrary, what chief marketing officers (CMOs) of some leading-edge companies have discovered is that more efficient sourcing actually leads to greater marketing effectiveness and a stronger emphasis on creativity. This is true because one by-product of greater procurement efficiency—say, in the form of designating certain suppliers as strategic vendors—is less time spent on managing processes and more time spent on developing core marketing programs and activities.

Further, when the CMO allows marketers to reinvest a portion of the savings generated from sourcing, they can use the money to fund new creative efforts and invest more in successful campaigns. In short, in this era of cost cutting, efficient sourcing can enable marketing to do more with less.

To gain the maximum benefit to their bottom lines and marketing efforts, companies will have to ensure that marketing and procurement departments collaborate to an unprecedented degree. This is not an indirect way of saying that marketing should be prepared to relinquish control of its budget. Rather, it's a prescription for a new paradigm, in which purchasing can bring a fresh rigor to the effectiveness of marketing expenditures.

This tighter collaboration between marketing and procurement won't come naturally; it is a change that requires careful planning and oversight. And although there is no silver bullet for achieving this task, there are steps that companies can take to begin the process of managing their marketing dollars more efficiently.

1. Analyze Marketing Spending in Detail

It is hard to buy marketing products and services efficiently without knowing where and how the money is currently being spent. Yet this is precisely the situation in which most CMOs of large companies find themselves: They don't have a detailed understanding of the composition of their marketing expenditures or a comprehensive profile of their supply base.

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This is because most marketing budgets are complicated, divided between “above the line” items such as advertising and creative services, meant to build brand awareness, and “below the line” spending in targeted areas such as promotion, direct mail, and point-of-sale, as well as prepress, printing, and fulfillment services. Further, most marketers manage against budgets and campaigns rather than focusing on the compliance of individual vendors to contractual terms. Also, because brands tend to operate in silos, many CMOs cannot get a clear picture of spending across brands. No wonder it’s so hard to keep it all straight: Marketing spending isn’t a line item; it’s a scattergram.

Nevertheless, setting a clear baseline by establishing where the money is being spent is crucial to a CMO’s ability to identify opportunities and develop insights for improvement. In the large retail bank described above, the CMO was able to gain critical knowledge of

variations in prices and service-level agreements, as well as the financial institution’s multiple internal points of contact with suppliers, by conducting a thorough baseline diagnostic that encompassed all of the bank’s marketing activities. That, in turn, allowed the CMO to drive toward more efficient sourcing by delineating points of synergy and opportunities for greater collaboration across brands.

2. Adopt a More Rigorous Approach to Spending

Marketing can become more disciplined about controlling costs in two ways. The first is attacking supply levers by rebidding and consolidating the vendor base, a process that marketing and procurement can and should undertake together. The second is through the manipulation of demand and process levers, the requirements placed on suppliers by the marketing staffers themselves.

Supply levers. Supply levers offer a broad opportunity to become

more efficient. This is partly because upwards of 70 percent of the marketing budget lends itself to definition by a standard set of specifications—e.g., trim size, paper weight, color, finish, and binding for printed materials. Companies that want to become efficient about marketing sourcing must be willing to adhere to rigorous pricing levels for standard products and services. They should also establish and maintain enterprise-wide rate cards or pricing grids for services such as graphics work, so that an individual business unit knows what it can expect to pay for different design elements and for agency resources, such as the services of a copywriter or creative director.

This discipline should extend to special situations in which the marketing concept requires unusual purchases (think of a totem pole, or a branded mobile that might hang in a store), creating unique specifications so complex that it is not possible or does not make sense to establish a rate card. In such cases, it is best to use a “market

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basket” approach, meaning that the company asks for prices for a representative set of services and uses those estimates to determine a preferred set of vendors. As the need for special items arises, only these preferred vendors are asked to bid on the work.

For companies in which print runs are a major component of marketing costs, disaggregating fixed print costs from variable ones is a good approach. Here, the relatively high fixed costs of print setup are amortized over longer print runs. So if a marketer knows she needs 200,000 print pieces in August and another 100,000 in November, she orders a whole print run of 300,000 at once. Or, if this is impossible, marketers might identify suppliers that are inherently better—and hence less

expensive—at running jobs of the particular sizes needed.

Demand and process levers. On the creative side, demand and process levers—which include the job’s complexity and deadlines; the composition in terms of number of colors, trim size, paper grade, and use of colors; the number of revisions and changes; the extent of quality control; and the type of technology employed—can be even more fruitful than pricing levers when brought under control.

Marketing should take the lead in managing the company’s demand levers, with purchasing playing a facilitating role. As is the case with the supply levers, improvements won’t happen until marketing managers

clearly understand the specifications of each job. Only then can marketing take steps—harmonizing the size of posters, ruling out special colors that require the interruption of a print run, and the like—to address what it buys, and how.

On the process side, one change that marketing and procurement may jointly pursue is handling more creative and production work either in-house or offshore. This is the classic make-versus-buy question, made more relevant in an era of cost-effective digital technology, which enables companies to do high-quality, low-cost production work internally, possibly through independent contractors. Another increasingly common tactic is to use one vendor to oversee a larger fragmented supplier

base, as part of an effort to minimize internal administrative work.

3. Deploy Decision Support Tools to End-Users

Companies that are most serious about controlling demand-side marketing expenditures are equipping marketing managers with decision support tools for day-to-day procurement. These software tools can serve many purposes. They can alert marketers when their current suppliers are overly expensive, less experienced, or less capable compared with others. They can automate price comparisons among multiple vendors, for instance, for doing an initial order of a print and fulfillment project and for han-

dling repeat orders, and help marketers after they have selected a vendor, by highlighting the cost trade-offs of, say, opting for nonstandard dimensions, custom colors, or services, such as campaign planning. They can also be useful in compliance analysis, offering tangible metrics that quantify the results of marketing's efforts.

These tools come in a variety of forms—from simple Excel spreadsheets based on vendor pricing grids to more robust workflow management systems, such as Aprimo or NewlineNoosh—but they have the same purpose: to create greater transparency into costs of decisions that marketers make on a day-to-day basis

while simultaneously enhancing their creativity and agility.

4. Create a Clear Delineation of Roles and Responsibilities

Cost savings from marketing sourcing won't happen at a company where decision rights and lines of responsibility aren't clearly delineated both within marketing and between marketing and purchasing. Within marketing, categories of spending that span business units, such as media buying, should be centrally managed, with marketing executives taking the lead in directly selecting the vendors and executing the marketing strategy. In categories such as local sponsorships and other regional and business unit events, cen-

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tralized execution is often not feasible. In those cases, corporate marketing's role should be to ensure that a vendor selection process is in place and the individual business units know how to execute the process and adhere to corporate or brand standards.

There also needs to be clear cross-functional delineation of roles between marketing and procurement. Typically, final decision rights remain with marketing, while procurement works to facilitate and continually improve the effectiveness of sourcing strategies. But in all cases, leaders in the functions must determine for themselves the proper roles of the two functions across the full procurement life cycle—from defining the category strategy to structuring the bid and negotiating the contract to performing ongoing vendor management and measurement and tracking. They must also decide who will play the lead and supporting roles at each stage of the sourcing cycle. When this

collaboration is properly positioned with mutually agreed-upon goals, marketers often become enthusiastic about working with procurement.

5. Define an Operating Model

In order to purchase marketing products and services more efficiently on a sustained basis, a company needs to develop an operating model to manage the effort. This structure is governed by the roles and responsibilities described above, but it will vary depending on the nature of the company's marketing activities.

In companies where marketing is relatively standardized across business units, a centralized department that all the business units use as an interface in their dealings with external creative agencies and vendors may be the best model. This group's responsibilities could also include purchases that span the marketing organization, such as market research, brochures and other collateral, direct mail,

and the development of novelties or giveaways.

Where there is more differentiation—whether in product or customer type—multiple sourcing centers located in and shared across major business units or regions are more effective. For instance, a large consumer packaged goods company with major independent business units may establish a sourcing center in each. In this distributed model, coordinating mechanisms will be needed to ensure that different business units and brands can take advantage of one another's efforts.

6. Use Change Management to Implement the New Paradigm

The previous steps require companies to change established strategies and practices and implement new ones. Some of these changes can be as basic as making an ironclad commitment to adhere to a new price schedule for incumbent vendors; others can be com-

plex, such as a shift to a streamlined set of preferred vendors that must be used regardless of local preferences.

Irrespective of the scale of the marketing sourcing agenda, the appropriate application of change management must be anticipated and provided if these initiatives are to succeed. And, although it's true that higher levels of change and gains in efficiency are positively correlated, this does not imply that every company should aim for a maximum amount of change in a minimum amount of time. Many companies need to approach change

carefully, with an accurate sense of their own change capacity and with an eye toward building the capabilities needed to sustain the change effort. To build support and avoid surprises, the transformation to more efficient sourcing of marketing requires comprehensive communication about the initiative's objectives and approaches. It also requires a well-defined project structure that includes detailed work plans, clear direction, and frequent reviews to keep the project on track.

When the marketing sourcing initiative is ambitious, the

involvement of senior executives is critical. It can be as simple as making sure that influential leaders in marketing conspicuously use the new processes and tools and, thus, drive adoption by example. Or it can be a more formal kind of leadership in which the CMO and CPO sponsor the initiative directly, participating in the plan design, communicating its benefits, and even calling on other senior executives, such as the CEO, CFO, and COO, for the occasional show-of-force pep talk to midlevel managers and the rank and file.

The transformation to more efficient sourcing of marketing requires comprehensive communications.

THE FRUITS OF OPTIMIZED SOURCING

An encouraging aspect of sourcing marketing more efficiently is that the payoff can materialize relatively quickly. Often, merely creating more visibility into a supplier's relationships across a firm and discussing the level of business with the supplier can elicit more favorable pricing. It is a good idea to look for this low-hanging fruit and harvest it with tightly controlled, guaranteed-to-succeed pilot projects. The quick wins that come out of such projects naturally relieve some of the organization's resistance to change and create momentum for wider adoption.

For the longer term, much higher benefits should be targeted and pursued. One consumer products company was able to target up to 8 percent in savings on creative services by developing a more competitive bidding process for choosing agencies. It targeted 16 percent savings by utilizing lower-cost resources, including internal graphic designers, for less complicated work. And it targeted 18 percent savings by adopting a pre-

ferred set of enterprise-wide vendors. Overall, the company's cost reduction target reached 42 percent: a US\$10 million savings in a firm spending \$25 million on creative services!

In short, a company that undertakes a marketing sourcing initiative can expect extensive return on its investment. Improved economics provides more money for other marketing initiatives—or higher profits for shareholders. New analytical tools and data result in better-trained marketing personnel capable of making more informed decisions about project specifications, job allocation, and purchasing. Deeper insight into supplier activities and more careful development of supplier relationships produce better price, service, and quality, as well as more reliable deliveries. And all of this can be achieved without interfering with creative goals or treading on the marketer's fundamental decision-making autonomy.

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